SUMMER 2004 STATE OF ALASKA

FINANCIAL footnotes

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Juggling Act

A successful retirement plan is just part of the financial juggling act.

When it comes to financial planning, it's all about setting goals. In fact, you can't have a successful retirement plan in place until you make sure you've got everything else covered. Otherwise, your finances would be all out of balance. And a financial plan out of balance is a sure recipe for failure—and endless frustration!

The trick is to learn how to juggle long-term goals (like retirement) with short- and medium-term goals (such as purchasing a home or paying for children's college tuition) while taking into account your personal priorities, economic circumstances and stage of life.

Beat the Clock

To create a realistic action plan for reaching different types of goals, set your financial priorities based on time horizons—how much time you have to save and invest. To help you sort out your priorities, take a sheet of paper and divide it into three sections. Put the following headings at the top of the sections, and take some time to jot down the goals you have, placing them under the appropriate time horizon. Some examples are included to help you get started: ▷

SHORT-TERM GOALS
(within 5 years or less)

- Take a vacation
- Save for down payment on a house
- Buy a new car
- Build an emergency fund

MEDIUM-TERM GOALS
(5 to 10 years away)

- Go back to school
- Start a business
- Pay for child's college education
- Remodel your house
- Buy a vacation home

LONG-TERM GOALS
(10 or more years away)

- Retire before age 65 (or full retirement age)
- Buy retirement property
- Support aging parent
- Help children with down payment on home

Next, rank the goals in each list according to their priority for you. This can be based on their importance and/or the order in which you would like to achieve them. Now estimate the potential cost of each goal, and determine how much money you've already saved can be allocated to that goal. How much more do you need to save to reach your goals? Are you on track, or do you need to create a more effective savings plan?

Keep a Steady Eye on All Your Goals

Short-term, medium-term and long-term financial goals each require different approaches to saving and investing. The longer your time horizon, the more investment risk you can afford to take for potentially higher returns over the long run. Why? Because riskier investments such as stocks have the long-term potential to earn more money, and their short-term ups and downs tend to even out.

Less risky investments might be a good strategy for short-term goals because you may not want to risk a sharp drop in value right before you need the money. However, if you invest *all* of your assets in conservative investments, you take the risk that your investments may not outpace inflation, and you may sacrifice long-term goals and the higher potential returns offered by more aggressive (riskier) investments.

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Let the Games Begin

Let the upcoming Summer Olympics in Athens inspire your retirement planning.

Bronze Event: Show your strength by expanding your knowledge.

The Challenge: According to the *2004 Retirement Confidence Survey* (published by the Employee Benefit Research Institute and Matthew Greenwald & Associates), most Americans believe they will be eligible for full Social Security benefits sooner than they actually will. More than 50% continue to believe that age 65 is the age at which they can begin receiving full benefits.

Here is the actual breakdown according to the Social Security Administration:

Retirement Age for Full Social Security Benefits

Year of Birth	Years	Months
1939	65	4
1940	65	6
1941	65	8
1942	65	10
1943-1954	66	0
1955	66	2
1956	66	4
1957	66	6
1958	66	8
1959	66	10
1960+	67	0

Bronze Medal Performance:

Know your full retirement age as defined by the Social Security Administration.

Now, based on your year of birth and the table above, enter your full retirement age here: _____ years _____ months.

Go to **www.ssa.gov/planners/calculators.htm** to get a rough estimate of what you can expect in annual retirement benefits. Keep in mind that full Social Security benefits will only provide around 25-40% of your retirement income. You can still elect to retire as early as age 62, but you face a reduced benefit that decreases further each year.

Government Pension Offset

If you worked in a job that was not covered under Social Security, e.g., some Federal, State, or local government employment, the pension you get based on that work may reduce your Social Security benefits.

Your benefit can be reduced under one of two provisions. The first, called "government pension offset," applies only if you receive a government pension and are eligible for Social Security benefits as a spouse or widow(er). The other provision, called the "windfall elimination provision," affects how your Social Security retirement or disability benefits are figured if you also receive a pension from work not covered by Social Security. The formula used to figure your benefit amount is modified, giving you a lower Social Security benefit.

For more information, you should read the Social Security fact sheets "Government Pension Offset" (Publication No. 05-10007), and "The Windfall Elimination Provision" (Publication No. 05-10045). You can get information on this and other Social Security issues at the systems' website: **http://www.socialsecurity.gov/**

Silver Event: Go the distance with a retirement savings need calculation.

The Challenge: According to the *2004 Retirement Confidence Survey*, only about 40% of workers have taken steps to calculate how much they need to save by the time they retire in order to live comfortably in retirement. Of those that did do a calculation, almost 60% made positive changes to their retirement planning, such as increasing their savings amount.

Well, here is your opportunity to take your retirement planning to another level. Don't be an aimless saver without clearly defined goals and a plan for achieving them! Knowing the basics of retirement planning means you know how much income you will need in retirement and what financial resources you will have to provide it.

Challenge yourself to take advantage of at least one of the following resources that can help you calculate your future retirement savings needs. It will help you determine how much you need to work toward in terms of a monthly dollar contribution.

* The authors of these resources are solely responsible for the provided information and content and are not affiliated with GWFS Equities, Inc.

Retirement needs calculation will vary based on individual circumstances, years until retirement and expected individual rate of return. The information and content provided is general in nature and is for informational purposes only. It is not intended, and should not be construed, as a recommendation or legal, tax or investment advice.

And remember, if after doing a calculation you find that you can't save that much today, that's okay. At least you will have a goal to work toward, which is the first step in gaining the confidence you need to take charge of your financial future.

Resources to Investigate:

- Your Plan provider's educational materials, worksheets and Web calculators to which you have access.
- Online planning tools courtesy of Great-West Retirement Services[SM]: **www.gwrs.com/gwrs/static/guests/planningtools.html**.
- Online "Ballpark Estimate" calculator courtesy of American Savings and Education Council: **www.asec.org/ballpark**.*
- *Ernst & Young's Retirement Planning Guide* (available at most bookstores).*

Silver Medal Performance:

Complete a retirement needs calculation.

Record amount (lump-sum dollar amount) you will need to have saved by the time you retire: $______________

Record amount (as a percentage of your annual pay) you need to contribute to your retirement plan to get there: ______%

Gold Event: Stretch hard with some summer savings ideas.

The Challenge: According to the *2004 Retirement Confidence Survey*, more than 70% of people who save for retirement say they could save an additional $20 a week for retirement. And, about 10% of them say they would not have to give up anything to do so. What's your excuse?

Potential Budgetary Action	Monthly Amount Saved & Invested	Value if Saved & Invested for 25 Years[1]
Shop around for a better cell phone plan	$15	$14,266
Receive a $100/mo. raise and invest $25/mo. in your Plan	$25	$23,934
Shop for a lower credit card interest rate[2]	$30	$28,721
Lower your car insurance premium	$50	$47,868
Refinance mortgage	$150	$143,605

Summer Savings Games: More tips for finding the money to save.

- Buy used gardening tools instead of new
- Learn how to do your own basic landscaping projects
- Have a yard sale
- Drop health club membership and exercise outside
- More picnics, fewer dinners out
- Drink more water—skip the soda or expensive bottle of wine when you go out
- Beat the heat by going to air-conditioned matinees during economy hours
- Take a camping vacation every other year, instead of an expensive trip

Gold Medal Performance:

Find at least $50 more to save each month in your account.

- Enter the additional amount you will commit to saving each month here: $_____/month
- Describe how you "found" this extra money (or plan to find it in the future):

____

____

Juggling Act *continued*

Spread the Wealth!

Practically speaking, you'll likely save and invest for more than one type of goal at a time. This means you'll need to figure out how much of your savings to invest in which types of funds, depending on their risk level, your financial situation and the time horizon of your specific goals. You may want to balance the returns you'd like to receive with a level of risk you are comfortable taking on.

Make sure you keep the information you filled out above on your goals and time horizons handy so you can refer back to them occasionally and check your progress!

1 FOR ILLUSTRATION PURPOSES ONLY. Assumes a hypothetical 8% annual rate of return, and no deduction for administrative charges. Not intended to represent performance of any particular security or investment plan, nor a projection or guarantee of future investment results or benefit payouts. Actual results will vary depending on investment performance.
2 Only if you must maintain a balance. You should make a plan to pay off the balance within a reasonable length of time by making more than the minimum payment each month.

Retirement in Motion

Tips and resources that everyone can use.

Boomers on the Brink

Issues facing participants approaching retirement.

Planning a Retirement Income Strategy. Having a broad mix of assets and accounts is a wise strategy even during retirement, especially if you carefully plan what to tap first. Try to withdraw money that will involve the smallest tax hit. Start with non-retirement accounts (you'll pay lower taxes, especially with the recently reduced tax rates on dividends and long-term capital gains). By withdrawing money first from non-retirement accounts, as well as bonds and short-term cash accounts, you can afford to maintain more money in growth investments longer (such as stock funds in your retirement plan).

Q & A

Common questions asked by retirement plan participants.

What pre-tax percentage should I invest when I am starting out?

Any savings is better than nothing, and the sooner you get started, the better! You should at least maximize your company's match, if available. For example, if your company matches 50 cents on the dollar up to 6%, you should contribute at least 6%. Simply defer as much as you can afford to budget and take full advantage of the tax deferral.

Tools and Techniques

Resources and ideas to guide you in your retirement planning efforts.

A good exercise to complete at least annually is to calculate how much income you will need in retirement. Financial professionals agree that you should plan on needing at least **70%-80%** of your pre-retirement working income—and even more depending on the kind of lifestyle you want for yourself in retirement.

Take your current annual salary: $ ____________

Multiply your salary by 0.7: $________ = 70%

Now multiply by 0.8: $____________ = 80%

The result is a good working range estimate of what your retirement income needs may be.

Quarterly Reminders

- It's time for a mid-year checkup: review your asset allocation and rebalance your portfolio if necessary.
- Review the designated beneficiary(ies) on your account if you have had any major life events (such as marriage, divorce, etc.).
- Check your contribution rate to make sure you are receiving the maximum company match (if available).

Corner on the Market

Basic financial terms to know.

Compounding. When you deposit money in a bank, it earns interest. When that interest also begins to earn interest, the result is compound interest. Investing in a retirement plan is different from putting money in the bank, but you still get the benefits of compounding. Compounding occurs because bond income or dividends from stocks or mutual funds are reinvested. Because of compounding, money has the potential to grow more rapidly than if the income were not reinvested.

For account or investment-related issues, contact:

KeyTalk®: (800) 701-8255*

www.state.ak.us/drb*

(TDD: 1-800-766-4952)

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We'd like to hear from you. Please send your questions/comments to:

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